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Pensions & Investment Age

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Top 200 funds win $63 billion in rally

By Marcia Parker

Riding the market's explosive new year's rally, the equity portfolios of the 200 largest pension funds gained almost $63 billion in January, *Pensions & Investment Age* estimates.

Combined with the market gains of the third quarter, this lifted equity assets for the top 200 funds to an estimated $528 billion from $441.1 billion as of Sept. 30.

The $62.8 billion increase estimated for the top 200 in January assumed they equaled the return of the Standard & Poor's 500 stock index. The composite asset mix among the top 200 funds was 43.6% equities as of Sept. 30. Total assets of the top 200 on that date were about $1.1 trillion.

The S&P 500 registered an impressive 13.5% gain in January, while the Dow Jones industrial average topped the magical 2,000 mark Jan. 8, then rushed past it to set a string of consecutive day new highs, hitting 2,163 during the month.

Except for a couple of steep declines that sent brief tremors through the market, the advance is back on track. And most analysts expect the bull market to endure at least through June.

That's good news for pension executives like W. Allen Harrison, assistant treasurer of Exxon Corp., New York. Although he didn't yet have performance data for January, "we have a fairly good feeling about how we did." Mr. Harrison wouldn't give a recent equity number, but said the fund has more than the 58% in equities reported as of Sept. 30.

Ralph Cuomo, assistant treasurer of the $240 million Hearst Corp., New York, said his fund "did real well, though I don't know yet just how well." He said Hearst would remain heavily weighted in equities because he is confident about the market's continued strength. As of Sept. 30, Hearst had 73.5% in stocks.

Eric Fuchs, director-pension fund benefits, AMAX Corp., Greenwich, Conn., said the $280 million fund was about 76% invested in equities as of Jan. 1. "We achieved about 10% total return for month, with equities up 13%-14%," Mr. Fuchs said.

He added equities will continue to be the predominant investment for the pension fund for the foreseeable future because he thinks the market will be driven by strong earnings and the AMAX portfolio is heavily invested in growth stocks. As of Jan. 31, the AMAX fund had about $135 million in equities.

Among the pension funds profiled by *P&I Age* each January, the equity portfolios for the 108 corporate funds in the top 200, in aggregate, swelled an estimated $43.3 billion to $267.7 billion as of Jan. 31 from $223.4 billion as of Sept. 30. The corporate funds in the top 200 were 50.1% invested in equities.

The 71 public funds in the top 200, which had $145.6 billion — or 33.4% of assets — invested in equities of $435.9 billion in total assets, gained more than $29 billion between the end of September and Jan. 31.

The 10 union funds in the top 200, which had 36.1% or $13 billion in equities of $36 billion in total assets as of Sept. 30, gained about $2.4 billion.

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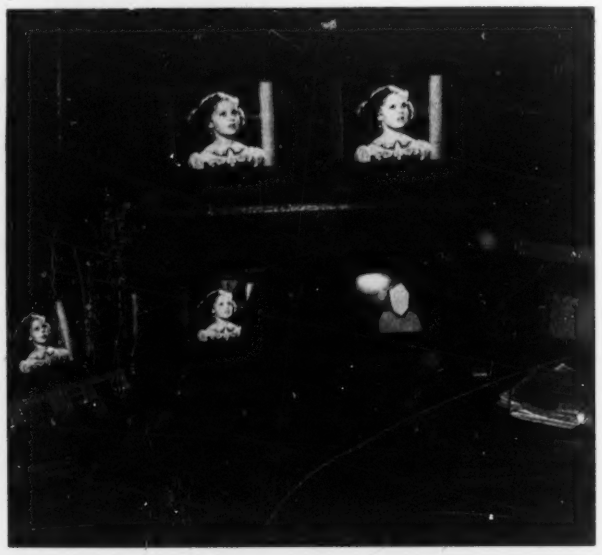

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Plan's surplus pays loan

Acme-Cleveland's switch to technology aided

By John Covaleski

CLEVELAND — Acme-Cleveland Corp., using some $19 million in surplus pension assets, is redirecting its future into technology and telecommunications products, moving away from its old-line machine tool manufacturing businesses.

The $19 million reversion — reduced to $17 million after taxes — stems from the recent termination of the company's $82 million pension plan for salaried employees. The surplus assets will be used to help pay off a bank loan, which has covenants that could prevent the company from acquiring or selling off business operations.

The company, which had sales of $186 million in 1986, owes about $19 million from a $25 million revolving loan agreement it has with four banks, led by AmeriTrust Co., Cleveland.

The termination took effect in October, with Acme-Cleveland purchasing $63 million in annuities from John Hancock Mutual Life Insurance Co., Boston, to insure the accrued benefits of the 2,223 active and retired employees who had participated in the terminated plan.

All eligible employees have been vested in a new defined benefit plan that bases benefits on each participant's average pay during his or her career. This gives the company greater control on costs than the old plan, which calculated benefits on an employee's final years of service. The company expects to make its first contribution in June 1988.

David L. Swift of Acme-Cleveland said recapturing the surplus will speed debt payments.

As an interim measure to safeguard against interest rate risks, the company in June had transferred about $65 million of the old plan's assets into a short-term, immunized bond portfolio.

In such a portfolio, the duration of the assets is matched to the duration of the liabilities, thus eliminating interest rate risk. Duration is the time it takes to recapture half of the present value of the cash flow of the assets or liabilities.

David L. Swift, vice president of administration and secretary at Acme-Cleveland, said, "Without the recaptured surplus, it would have taken the company several years to pay off the debt and remove the covenant."

L. Michael Braig, an analyst with Johnson, Lane, Space, Smith & Co., Atlanta, called the use of the reversion to pay off the loan "exceedingly important."

"The banks last year started tightening the covenants to where it was a choke collar," he added.

Mr. Swift said the company

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Labor trustees sue Eastern

By Brad Rudin

MIAMI — Two labor trustees of an Eastern Airlines pension fund have charged Eastern Airlines Inc. with breach of fiduciary duty.

If the suit filed in U.S. District Court in Miami goes to trial, it likely will clarify the responsibility of a management-appointed trustee faced with conflicting demands from the plan sponsor and plan beneficiaries.

The labor trustees of the Eastern Airlines Fixed Benefit Retirement Income Plan for IAM Mechanics and Related Personnel claim Eastern breached its fiduciary duty to plan beneficiaries by withholding a $16 million contribution to the $218 million fund.

Texas Air Corp., which engineered a merger with Eastern last year, the three management trustees appointed by Eastern and the company's general counsel are defendants in the December complaint that started the lawsuit in the Miami division of the Southern District of Florida.

As a part of a 1983 collective bargaining agreement, Miami-based District 100 of the International Association of Machinists and Aerospace Workers won two seats on the five-member board of trustees. Unions rarely have representation on single-employer pension plans.

The 33-page complaint charges the management-appointed trustees breached their fiduciary responsibilities when they refused to obtain independent legal and actuarial advice after the company decided to withhold payment for the 1985 contribution, which was due Sept. 15, 1986.

In addition, the complaint said the defendants breached their fiduciary responsibility under the 1974 Employee Retirement Income Security Act by failing to consider the impact of the loss of funding and by acting in response to the business needs generated by the merger of Eastern and Texas Air Corp., Houston.

No answer has been filed in response to the complaint.

The complaint seeks payment of the contribution, an award of un-

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Managers' survey out

Questionnaires for *Pensions & Investment Age*'s annual Money Manager Directory, to be published May 25, are in the mail. Completing and returning the questionnaire ensures your firm will be profiled in the special issue, which last year profiled almost 1,000 money managers in the United States, Canada and Europe.

The questionnaires should be returned by Feb. 27.

If your investment management firm or insurance or bank investment department does not receive a questionnaire, please call Carol Wiley, directory coordinator, at (312) 649-5486.

Investors ease stance against GM

By Barry B. Burr

Cracks are appearing in the once-solid front of the institutional investors that co-sponsored a shareholders' resolution protesting General Motors Corp.'s $742 million buy-out of H. Ross Perot.

Among the six co-sponsors:

- The $13.198 billion Teacher Retirement System of Texas, Austin, has withdrawn its support;
- The $13.5 billion State of Wisconsin Investment Board, Madison, has softened its position; and
- The remaining co-sponsors still support the resolution, although their positions could change.

Roger B. Smith, GM's chairman and chief executive officer, has agreed to at least two more meetings on the issue with co-sponsors.

The $37.7 billion California Public Employees' Retirement System has scheduled a meeting with Mr. Smith Feb. 23 in Sacramento.

Vanguard Group Inc., the mutual fund company, has scheduled a meeting with Mr. Smith the week of Feb. 9 in Valley Forge, Pa.

Both meetings will be private. GM executives already have met with several co-sponsors at Council of Institutional Investors meetings in New York in December and January and with the Wisconsin Investment Board in Madison last month.

Joe Perrone, chief investment officer of the Texas teachers fund, said the fund informed GM executives it was withdrawing as a co-sponsor. The fund isn't a member of CII.

Although he said the fund still objects to the buy-out, "We felt they had at least listened to our position."

Mr. Perrone said he and other fund officials had talked with top GM officials, although not Mr. Smith, by telephone before withdrawing as a co-sponsor.

"We heard their position, which wasn't different from what we knew," he said. "We still disagree with them. What are we going to do about it? Not a whole helluva lot. We don't feel there is much else we can do," he added.

The fund has no plans to sell its GM-related holdings — 532,000 shares of GM common stock, 45,000 of E stock and 23,000 of H stock.

"We would never have attempted to support a resolution on our own," he said.

Nevertheless, he said, the fund would vote independently of management. "We're probably past the stage of a couple of years ago when we voted as a rubber stamp the way management wanted."

Even so, "There is a growing amount of influence taking place as institutions become more vocal," he said. "Management wouldn't attempt to placate us as they do if they didn't think our role had an impact."

Kenneth E. Codlin, executive director of the Wisconsin fund, said of the investment board's position, "We've become more knowledgeable and understanding of (GM's) position. We are still discussing with them this (shareholder) discrimination issue." Wisconsin was a leading advocate of the resolution.

Thomas Aceituno, counsel for the Californ a state treasurer, who is trustee for the two major public funds, said Mr. Smith's meeting would involve only the public employees. The $19.361 billion California State Teachers' Retirement System, another co-sponsor, has not made a request for a meeting.

Mr. Aceituno said no decision has been made on withdrawing support for the resolution.

John Lukomnic, press representative for Harrison J. Goldin, New York City comptroller, said the New York City Employees' and Teachers' retirement systems each is continuing as a co-sponsor. "Right now, there are no plans to withdraw our co-sponsorship," he said.

He said Mr. Goldin believes GM has to show "concrete signs" of improving in 1987. Otherwise, he said Mr. Goldin would work to change management.

Mr. Goldin "wasn't ready to set a time frame," he said. "He wasn't setting a daily or quarterly time frame. But he wasn't willing to wait a decade either." ■

Portfolio insurance faces risk

By Trudy Ring

Even though some market observers say program arbitrage, not dynamic hedging, caused the wild stock market gyrations Jan. 23, continued volatility eventually could create significant problems for dynamic hedgers.

The arbitrageurs, meanwhile, contend they were merely reacting to more fundamental market sentiments that were reflected in futures prices before stock prices. Their arbitrage programs pulled the stock and futures prices in line with one another, they said.

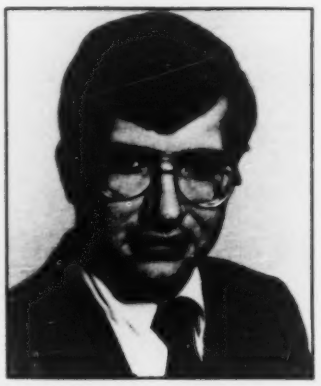
Most dynamic hedgers said they executed no trades that day, when the market, as measured by the Dow Jones industrial average, rose 64 points and fell 114 in little more than an hour. The Dow closed down 44.15 points for the day at 2101.52.

Most managers using dynamic hedging, also called portfolio insurance, said they didn't trade that day because it wasn't necessary. Rises in the stock market in 1986 and early 1987 had lifted client portfolios to the point the Jan. 23 decline wasn't enough to trigger the insurance programs, which generally are implemented with the short sale of stock index futures. The strategy is designed to cut off portfolio losses at a specified point.

But William M. Morris, a principal of William M. Mercer-Meidinger Inc., New York, said dynamic hedging managers couldn't have traded that day if they had wanted to. "It's inconceivable to me that they could have gotten trades off (in the market's most volatile period), and if they did, it cost them a full year's insurance," he said.

During the wild stock market swings, the Standard & Poor's 500 stock index futures contract went quickly to a discount from a premium price, although it recovered later in the day.

Leland O'Brien Rubinstein Associates Inc., Los Angeles, the biggest dynamic hedging manager, did little trading that day, said Larry Edwards, president. Client accounts had benefited from the earlier market run-up and therefore did not reach the point at which the hedge would be triggered, he said.



The market activity Jan. 23 didn't effect Mead's hedged fund, said Gerald W. Bialka.

"The net effect (of the market's activity on Jan. 23) was not that much," said Gerald W. Bialka, assistant treasurer of Mead Corp., Dayton, Ohio, whose $525 million pension fund is hedged by LOR.

"As far as I know, there was no trading done on our behalf that day," added C.F. Lemons, director-trusteed benefit funds at Manville Corp., Denver, which has LOR and J.P. Morgan Investment Management Inc., New York, as dynamic hedging managers for its $756 million pension fund.

Oppenheimer Capital Corp. and Bankers Trust Co. — Investment Management Group, both of New York, and Skye Investment Advisors Inc., Cupertino, Calif., did no trades for dynamic hedging clients that day, officials of those firms said.

"I've heard other portfolio insurance managers say the same thing," said Ethan Etzioni, a vice president of Oppenheimer.

Dean D'Onofrio, vice president and manager-quantitative investment group at Bankers Trust, disagreed that dynamic hedgers couldn't have entered the market Jan. 23.

"Couldn't make trades? That's kind of unrealistic," he said. "You couldn't make trades at the prices you wanted, maybe."

He said he did a simulation for a large pension fund showing what would have happened if Bankers Trust had made trades every hour Jan. 23 to implement a six-month portfolio insurance program, in effect from Jan. 1.

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Withdrawals hit Hancock fund

Real estate pool may surrender one-third of assets

By Steve Hemmerick

BOSTON — Pension funds want to withdraw at least one-third of the assets in the $600 million Equity Real Estate Account of John Hancock Mutual Life Insurance Co., one of the nation's oldest open-end real estate funds.

Other, larger commingled real estate funds also have experienced withdrawal requests. But those requests, although higher in dollar terms, represent a much smaller percentage of the funds' total assets than they represent to Hancock's 11-year-old fund.

Among reasons for the withdrawals are pension executives' increased sophistication in real estate and the relatively poor performance by the commingled funds. Data collected for *Pensions & Investment Age*'s Scorecard survey shows investors increasingly are moving toward more specialized real estate investment firms that offer closed-end funds or separate accounts, through which they can make direct investments. (*See story on page 13.*)

The $2.6 billion Alaska State Retirement System in early 1986 asked to withdraw its entire $19 million investment in the Hancock fund. Its sole reason for pulling out was to go into more specialized real estate funds, said Marty Lentz, real estate investment officer. The system since has received only $1 million.

Ron Garner, a senior real estate investment officer with Hancock, said he believes there is no run on the fund even though such a large percentage has been marked for withdrawal.

He said he believes the pace of withdrawals will slow and the fund could stabilize with the remaining $400 million in assets.

To stem the withdrawals, Hancock officials are exploring radical changes to improve the investment performance of the fund, which in 1986 had a total return of −2%, according to Mr. Garner. The fund had a return of 6.5% on income, but −8.5% on appreciation.

The changes could include doubling the asset size of the fund through positive leverage — in which debt is used to increase return — and "securitizing" part of the fund by forming a real estate investment trust. The actions would increase the liquidity of the fund sharply, which now has no debt, as well as improve cash-on-cash yields.

Mr. Garner said, however, these moves are under consideration and he could offer nothing "concrete."

He estimated about half of the $200 million in withdrawal requests probably would be honored by the end of this year. Remaining requests would be paid later.

He said requests are honored on a "pro rata" basis and that about $150 million of the withdrawal requests are "serious." He said the other $50 million in requests probably were made because of the time it takes for withdrawals to be honored and because other participants are making withdrawals.

Some investors want to withdraw all of their assets, others only some. The commingled fund has 60 investors, but Garner wouldn't say how many have requested to withdraw money.

Mr. Garner said the trend toward withdrawal from open-end

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Scorecard

Passive firms more active

Quantitative managers also net equity clients

By Trudy Ring

Passive and quantitative strategies proved most successful in attracting money for equity management in 1986.

Index funds accounted for much of the gain in domestic equity assets under management by large investment firms in 1986, while quantitative managers were the big gainers among midsize and small firms.

Among firms with more than $1 billion under management, the four that reported the largest net gains in domestic equity assets are all major index fund managers — Wells Fargo Investment Advisors, San Francisco, with a net gain of nearly $10.7 billion; State Street Bank and Trust Co., Boston, with $7.9 billion; Mellon Capital Management Corp., San Francisco, with $4 billion; and Alliance Capital Management Corp., New York, with nearly $2.3 billion. These four had either all or most of their new equity assets in index funds.

The fifth, Northern Trust Co., Chicago, had about one-fourth of its nearly $1.8 billion in new equity assets in pure index funds, but most of the remainder was in derivative products, such as futures, that also are tied to a market index.

Stock indexing soared in the first half of 1986, continuing the trend of the past few years, but appeared to level off in the second half *(Pensions & Investment Age,* Jan. 12). Index funds have been popular because of their management fees and transaction costs are lower than those of active managers, and because many active managers have underperformed broad market indexes in recent years.

However, the leveling off may indicate traditional index funds, such as those based on the Standard & Poor's 500 stock index, have reached the saturation point, and plan executives desire custom index products.

"There has been a fair growth in non-S&P-type index funds," said Frederick L.A. Grauer, president of Wells Fargo. Because many tax-exempt funds now use "normal portfolios," or custom-designed benchmarks to measure performance, they want index funds that behave like these benchmarks, he said.

The 38 new equity clients listed by Wells Fargo on its questionnaire include Singer Co., Stamford, Conn.; Nevada Public Employees' Retirement System, Carson City; Illinois State Universities' Retirement System, Champaign; and Pacific Gas & Electric Co., San Francisco.

Respondents were asked to list clients and were permitted to stipulate some or all client names not be published. Those not listing any client names were not ranked.

State Street Bank provided client names on the condition they not be published. Mellon Capital's new equity clients included Eli Lilly & Co., Indianapolis; Honeywell Inc., Minneapolis; and the Pennsylvania Public School Employes' and State Employes' retirement systems, both of Harrisburg.

Alliance's new equity clients included F.W. Woolworth Co., New York; Los Angeles Fire & Police Pension System; and Nevada Public Employees. Northern Trust's new equity clients included Allied-Signal Inc., Morristown, N.J.; Eli Lilly; and Tribune Co., Chicago.

Index funds, either traditional or custom, often form the core of a pension fund's investment strategy, receiving the largest portion of assets and being supplemented by active management.

Among active managers, those using quantitative techniques proved popular in 1986, possibly because investors may doubt managers' ability to pick stocks based on subjective criteria.

"There's a certain quest for more disciplined and rigorous processes," said Denis R. Bastin, senior vice president of Paribas Asset Management Inc., New York.

Paribas, with $146 million in new equity assets under management in 1986, led all small managers — those with less than $250 million — in that regard. One of Paribas' three new equity clients was Michelin Tire Corp., New York.

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Index managers score in tally of '86 new business

By Trudy Ring

Almost 20% of the tax-exempt business gained by money managers in 1986 went into index funds, continuing a trend of the past two years.

The 259 managers included in *Pensions & Investment Age*'s Scorecard survey reported a net gain of $179.7 billion in assets under management. They reported $76 billion was in contributions from new clients, $59 billion in additional contributions from existing clients and $62.9 billion in market appreciation, dividends and interest.

The sum of the three latter figures is greater than the net gain because some managers also lost business.

The managers reported $48.5 billion in new domestic equity business; of that, $29.5 billion, or 60.8%, was in index funds. Of the $24.3 billion in new domestic bond business, $5.9 billion, or 24.3%, was in index funds. A total of $11.2 billion went into balanced management.

The 20% of net new business placed in indexed funds overall in 1986 was down from 1985 figures, when 22.5% of net new business was targeted for indexing. That year, 52.6% of net new equity business was indexed, and 4.9% of the fixed-income gain was indexed.

Other asset classes attracting significant amounts of money in 1986 were guaranteed investment contracts, $17.2 billion; dynamic hedging, also known as portfolio insurance, $12.7 billion; and real estate, $6 billion.

International investments, and 24 respondents with most of their assets in that area, were excluded from the Scorecard results because of difficulty in determining whether the assets listed were tax exempt.

Another 39 respondents were excluded from the results because they did not name clients. Money managers were asked to provide client names and were allowed to stipulate that any or all names not be published. Most respondents released some names for publication.

Indexing giant Wells Fargo Investment Advisors, San Francisco, led all respondents with nearly $25.8 billion in new business. It was the top gainer in domestic equity and portfolio insurance business, with $10.7 billion and $7.5 billion respectively, and placed in the top 10 for domestic fixed income, with $2 billion. Also, it listed $9.1 billion of its new assets as being a result of market appreciation.

Wells Fargo handles indexed products exclusively, although some of the funds track customized indexes or are enhanced with futures with the aim of beating a market benchmark.

Wells Fargo had the top spot for the second consecutive year, but its 1986 gain of assets under management more than doubled its 1985 figure, $10.4 billion.

" '86 was quite a year," said Frederick L.A. Grauer, Wells Fargo president. Asked the reason for the firm's success, he said, "I think the market has voted."

Wells Fargo has met the tax-exempt market's demand for index funds, which outperform a majority of actively managed portfolios and also carry lower transaction costs and lower management fees than active strategies, Mr. Grauer said.

While Wells Fargo's fees are lower than those of active managers, it has not put in additional discounts to attract business, he added.

Commitments to stock index funds slowed in the second half of 1986, indicating that perhaps the demand for traditional index funds, like those tracking the Standard & Poor's 500 stock index, has been met. However, customized stock index funds and various types of bond index funds apparently still are in great demand.

"I think the major area of growth in '87 will be bond indexing," Mr. Grauer said.

As to portfolio insurance, he said it has been popular because pension executives see it as a means of controlling the distribution of their returns. It also can allow them to change their asset allocation, perhaps increasing their percentage in stocks. "It's certainly one more tool and a fine, powerful tool," he said.

Wells Fargo offers portfolio insurance as a licensee of Leland O'Brien Rubinstein Associates Inc., Los Angeles.

Coming in second was Aetna Life & Casualty Co., Hartford, Conn., with $14.1 billion. Aetna listed $5.9 billion of the increase as market gain, but it also was buoyed by $1.2 billion in GICs, $1.2 billion in domestic equities and $511 million in real estate. It placed in the top 10 in each of these categories.

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Net dollar gain

Top 10 managers over $1 billion

Company	$ mils.
Wells Fargo Invest., San Francisco	25,783
Aetna Life & Casualty, Hartford, Conn.	14,122
State Street Bank, Boston	11,900
J.P. Morgan Mgmt., New York	7,634
Prudential Asset Mgmt., Newark, N.J.	7,452
Mellon Capital Mgmt., San Francisco	6,500
Bankers Trust—Invest. Mgmt., New York	6,423
Alliance Capital Mgmt., New York	4,598
RepublicBank Dallas	3,835
Boston Co., Boston	2,916

Top 10 managers $250 mil. to $1 bil.

Company	$ mils.
Hahn Holland & Grossman, Chicago	475
Axe-Houghton Mgmt., Tarrytown, N.Y.	451
Merganser Capital Mgmt., Cambridge, Mass.	415
Eagle Asset Mgmt., St. Petersburg, Fla.	327
Renaissance Investment Mgmt., Cincinnati	326
Wolf Webb Burk & Campbell, Philadelphia	325
Nicholas-Applegate Capital, San Diego	324
Jones Lang Wootton Realty,New York	300
Advanced Investment Mgmt., Pittsburgh	280
Bank of California, San Francisco	278

Top 10 managers under $250 million

Company	$ mils.
Paribas Asset Mgmt., New York	146
PMRealty Advisors, Newport Beach, Calif.	91
Wedge Capital Mgmt., Charlotte, N.C.	90
Crabbe-Huson Co., Portland, Ore.	74
Farmer & Lang Inc., Atlanta	74
Anchor Capital Advisors, Boston	70
Ariel Capital Mgmt., Chicago	67
E.M.G. Advisors, Fairfield, Conn.	62
P.E. Becker, Portland, Ore.	62
Tukman Capital Mgmt., Larkspur, Calif.	60

Firms use a variety of strategies

Funds hire active bond managers

By Brian Lehrer

Bond index funds were a client magnet for a few large managers in 1986, but most bond managers relied on a variety of active strategies to attract business.

Among firms with more than $1 billion under management, the ones with the largest net gain in tax-exempt fixed-income assets were Bankers Trust — Investment Management Group, New York; The Vanguard Group of Investment Cos. Inc., Valley Forge, Pa.; and Wells Fargo Investment Advisors, San Francisco.

Figures are gleaned from responses to a *Pensions & Investment Age* Scorecard questionnaire covering Jan. 1 to Dec. 1, 1986.

Bankers Trust employed active and passive strategies as it wooed $3.61 billion in new fixed-income business in 1986.

Its active strategy focuses on choosing the most attractive sectors and issues, said Win Neuger, senior vice president and managing director of fixed income. "The market is recognizing that other investment styles are attractive besides interest rate anticipation," Mr. Neuger said, explaining Bankers Trust's success.

Of the total, the firm reeled in $1.43 billion worth of index business. Indexes tracked include the Shearson Lehman Government/Corporate bond index, the Salomon Brothers Broad Investment Grade Bond Index and various customized indexes, Mr. Neuger said.

Bankers Trust listed 10 new fixed-income clients, but asked none be identified.

Respondents were asked to list clients and were permitted to stipulate some or all client names not be published. Those not listing any client names were not ranked.

Mutual fund manager Vanguard finished second overall in the fixed-income rankings, picking up $2.417 billion, including individual accounts. Of the total, $870 million came from 65 institutional tax-exempt clients.

Vanguard's bond portfolio comprises five active, "but not superactive" funds, said Jon Bogle, chairman. They cover Government National Mortgage Association securities; investment-grade bonds; high-yield bonds; short-term bonds; and Treasury bonds.

"We take a focused approach," he said describing Vanguard's philosophy, "by allowing the client to choose what portfolio he wants to be in."

The firm stresses yields with low operating fees. Vanguard's expense ratio, the measure of expenses as a percentage of assets, is only 0.41%, Mr Bogle said. Most mutual fund managers will charge 0.9%, he said.

Wells Fargo scooped up $2.036 billion worth of new business in 1986 with a passive strategy that centers entirely on indexing.

The firm tracks the Shearson Lehman and Salomon BIG indexes as well as enhanced subindexes, said Thomas Middleton, vice president of client relations and marketing.

Mr. Middleton credited indexing's propensity toward bettering active bond styles for Wells Fargo's windfall of new clients.

In addition, he said the firm has added two staff members in anticipation of a strong year in 1987.

Eric Clothier, formerly of Mellon Bank, Pittsburgh, and Tom Cooper, formerly of State Street, were hired at the end of 1986, Mr. Middleton said. Mr. Clothier will be a bond index trader and fixed-income manager. Mr. Cooper will be a deputy manager of fixed-income specializing in customized funds.

"It is our desire to be a leader in the development of enhanced index funds," Mr. Middleton said.

Among Wells Fargo's 12 new fixed-income clients are Federal Paperboard Co. Inc., Montvale, N.J.; National Intergroup Inc., Pittsburgh; SEI Corp., Wayne, Pa.; and Burns and Roe Inc., Oradell, N.J.

Ranking sixth this year was State Street Bank and Trust Co., Boston. It attracted $1.33 billion in 1986 "mostly offering index-type funds," said Harry Sterling, director of marketing for asset management services.

The strategy focuses on the Shearson Lehman Government/Corporate index, but Mr. Sterling said State Street does not have tunnel vision.

"We have the capability to index any subset of that universe, and we can also track the Salomon Brothers (BIG) index, but we have not really used it," he said.

Mr. Sterling said the mushrooming interest in bond indexing and the fact that State Street has been a pioneer in that field account for its new asset gains, although the firm asked the names of its two new fixed-income clients not be published.

Among the medium-size firms, those with $250 million to $1 billion under management, a variety of active styles drew new clients. Some of the leading firms in this group were Magten Asset Management Corp., New York; Smith Affiliated Capital Corp., New York; Wolf, Webb, Burk & Campbell Inc., Philadelphia; and Weaver C. Barksdale & Associates, Brentwood, Tenn.

Among small firms, those with less than $250 million under management, some of the largest gainers were E.M.G. Advisors, Fairfield, Conn.; Maryland National Bank, Baltimore; and Mutual Service Life Insurance Co., Arden Hills, Minn.

Magten employed its specialized active strategy to grab $175 million worth of new business in 1986, second in its asset category.

The firm looks for value in the low end of the fixed-income market, said Talton Embry, president.

"We've been successful because we have a differentiated product that has performed well," he said.

Three of its four new clients are

Continued on page 42

Most new fixed-income business (net)

Top 10 managers over $1 billion

Company	$ mils.
Bankers Trust—Invest. Mgmt., New York	3,614
Vanguard Group, Valley Forge, Pa.	2,417
Wells Fargo Invest. Advisors, San Francisco	2,036
J.P. Morgan Invest. Mgmt., New York	1,801
Investment Advisers, Minneapolis	1,400
State Street Bank, Boston	1,330
Fischer, Francis, Trees & Watts, New York	1,250
Citicorp Invest. Mgmt., New York	790
Loomis, Sayles & Co., Boston	743
Morgan Stanley Asset Mgmt., New York	656

Top 10 managers $250 mil. to $1 bil.

Company	$ mils.
Merganser Capital Mgmt., Cambridge, Mass.	383
Magten Asset Mgmt., New York	175
Smith Affiliated Capital, New York	123
Wolf Webb Burk & Campbell, Philadelphia	108
Weaver C. Barksdale & Assoc., Brentwood, Tenn.	82
Bradford & Marzec, Los Angeles	81
Marine Investment Mgmt., Springfield, Ill.	71
Portfolio Group, New York	43
Prescott Asset Mgmt., New York	41
Colorado National Asset Mgmt., Denver	25

Top 10 managers under $250 million

Company	$ mils.
E.M.G. Advisors, Fairfield, Conn.	62
Maryland National Bank, Baltimore	15
Mutual Service Life Insurance, St. Paul, Minn.	15
Ballard, Biehl & Kaiser, San Mateo, Calif.	11
Heartland Capital Mgmt., Indianapolis	5
Qualified Counseling, Rochester, N.Y.	5
New Mexico Capital Mgmt., Albuquerque	4
Steven A. Noroian & Assoc., San Francisco	4
Glass Austin & Calvert, San Antonio, Texas	3
Schaenen Wood & Associates, New York	3

Money managers that buy GICs show strong gains

By Trudy Ring

Money management firms that buy guaranteed investment contracts on behalf of their clients are becoming increasingly important in the GIC business.

Two of those firms are in the top 10 in new GIC business in 1986, according to *Pensions & Investment Age*'s Scorecard survey. The others are the insurance companies that write the GICs.

PRIMCO Capital Management Inc., Louisville, Ky., was third among survey respondents with $1.4 billion in new GIC business. It was ninth last year, with $400 million in new GIC business.

Morley Capital Management Inc., Lake Oswego, Ore., was sixth with $770 million in new GIC business. It did not appear in the top 10 last year.

Both firms buy GICs on behalf of their clients. Traditionally, most pension funds have bought the contracts directly from insurers. But PRIMCO and Morley officials said there is added value in their services.

"We view ourselves as a specialty fixed-income manager and our specific class of assets is GICs," said John Monahan, principal of PRIMCO.

A firm like PRIMCO can help a pension plan improve returns on GICs by deciding when to buy the contracts, Mr. Monahan said. "Any decision to make a purchase on a certain date is making a major interest rate bet," he said. "In today's environment, with lower interest rates, every basis point counts."

Both PRIMCO and Morley follow more than 40 insurance companies, a task few pension funds are able to do internally, officials of the firms said.

"We are basically trying to help plan sponsors use GICs as a true investment asset, rather than something they just buy from an insurance company," said Larry Mylnechuk, senior vice president of Morley.

Morley also is offering open-end pooled GIC funds for banks to offer to their pension fund clients, he said.

PRIMCO's 23 new clients included Crown Zellerbach Corp., San Francisco; Occidental Petroleum Corp., Los Angeles; Scott Paper Co., Philadelphia; and the Milwaukee City Employes' Retirement System. Morley's 10 new clients included MidCon Corp., Lombard, Ill; Graphic Communications International Union, Washington; and Occidental Petroleum.

Eight insurance companies joined PRIMCO and Morley in the top 10 GIC firms. As PRIMCO and Morley buy the contracts from major insurers, there may be some double-counting of assets in the top 10.

Leading the pack, as it did the previous year, was Prudential Asset Management Group, Newark, N.J with nearly $7.2 billion in new GIC business.

In 1985, Prudential had $4.3 billion in net sales. Bob Chmely, president, attributed the increase to an expansion of the GIC market, as well as some annuity sales, which Prudential included in the GIC figure. Also, some of the growth represented reinvestment of the proceeds of maturing contracts, he said.

Prudential's hold on the GIC market is largely because of its reputation and the expertise of its sales force, Mr. Chmely said. "When (a pension fund) has a Prudential GIC, it means something to the participants," he said.

Prudential listed 50 new GIC clients, including National Rural Electric Cooperative Association, Washington; North American Philips Corp., New York; and Procter & Gamble Co., Cincinnati.

The Travelers Cos., Hartford, Conn., came in second with $1.6 billion. "We're very aggressive in that business," said Tom Willison, vice president-asset management and pension services.

Travelers already has a good market position in GICs, so many pension executives think of Travelers when in the market for contracts, Mr. Willison said. Also, Travelers' sales force is distributed well geographically and has contacts at major corporations, he said. Also, consultants know and respect Travelers, he said.

Travelers provided client names on the condition that none be published. Respondents were given the option of doing this, but those that did not provide any client names were not ranked.

Provident National Assurance Co., Chattanooga, Tenn., ranked fourth with $1.3 billion. "Unlike a lot of the companies, the GIC is our primary product," said Win Profio, vice president-marketing. He attributed Provident National's success primarily to its aggressive sales force and skilled underwriters.

Provident National provided client names on the condition none be published.

Aetna Life & Casualty Co., Hartford, was fifth with $1.2 billion. Aetna's ability to be in the GIC market at all times buoyed its business, said T. Jerald Moore, vice president.

Aetna chose to provide new business figures for Jan. 1 through Sept. 30, while the other managers gave figures for

Continued on page 43

Most new GIC business (net)

Company	$ mils.
Prudential Asset Mgmt., Newark, N.J.	7,186
Travelers Cos., Hartford, Conn.	1,610
PRIMCO Capital Mgmt., Louisville, Ky.	1,400
Provident Nat'l Assurance, Chattanooga, Tenn.	1,316
Aetna Life & Casualty, Hartford, Conn.	1,248
Morley Capital Mgmt., Lake Oswego, Ore.	770
Principal Mutual Life, Des Moines	695
The New England, Boston	452
MONY Financial Services, New York	434
Pacific Mutual Life, Newport Beach, Calif.	419

Real Estate

10 managers rake in $4.1 billion in '86

By Steve Hemmerick

Ten of 36 real estate investment managers got about 67.8%, or $4.107 billion, of the $6.065 billion allocated to equity real estate during 1986, as measured by the *Pensions & Investment Age* Scorecard survey.

The Scorecard figures support consultants' beliefs that pension plan executives are picking well-known names for investment management and prefer advisory firms at which the owner/operators have an equity stake in the firm.

All of the managers making the Scorecard top 10 were well-established names in the business.

And nine of 10 that received the most new business in 1986 were advisory firms, rather than banks or insurance companies.

Insurance companies once dominated the business with open-end funds. Now, investors are increasingly moving to more specialized real estate investment firms that offer closed-end funds or separate accounts.

The only insurance company making the top 10 was Aetna Life & Casualty, Hartford, Conn., which placed third, helped by the 1986 closing of a $200 million closed-end apartment development fund. It received $511 million in 1986.

Pat Bowerman, a vice president with Aetna, said Aetna's offering of more closed-end and specialty fund real estate products than other insurance companies might have helped it make the top 10.

Heitman Advisory Group, Chicago, led the firms with $900 million in new assets. It was followed by Copley Real Estate Advisors, Boston, with $775 million.

For nine of the top 10 in aggregate, most of the assets received went to either separate accounts, $2.177 billion, or closed-end commingled funds, $1.691 billion, according to officials.

About 11% of the assets for the top 10 funds went into the less-popular open-end funds: $300 million to Aetna and $196 million with Copley's Development Properties Account.

There was also more money invested this year, as the top 10 firms reported receiving about $800 million more in assets than did the top 10 firms last year.

Other firms making the top 10 this year are: TCW Realty Advisors, Los Angeles, $317 million; Richard Ellis Inc., New York, $301 million; Jones Lang Wootton Realty Advisors, New York, $300 million; JMB Institutional Realty, Chicago, $261 million; J.W. O'Connor & Co., New York, $260 million; Eastdil Realty Inc., New York, $243 million; and LaSalle Advisors Inc., Chicago, $239 million.

Only one firm that was on last year's real estate Scorecard didn't make a return appearance: Boston Co., Inc., Boston. It was replaced by LaSalle.

All of the firms interviewed — LaSalle officials weren't available — reported doing all or part of in-house property management and leasing, which attract pension executives. In-house property management helps cut costs and keep up property while in-house leasing is critical because managers buy out tenant leases that are below market rental rates and make other moves to increase return on properties.

But entrepreneurial or employee-owned business may be a more important factor in getting new business. "Pension sponsors basically like that," said William Ramseyer, president of San Francisco-based Pension Realty Advisors.

"Sponsors like to see the service people as basically stake holders," he said. The theory is that employees will work harder, stay longer and increase profits when they can share in their productivity, he explained.

TCW Realty had the most named clients with 21, including Brunswick Corp., Skokie, Ill.; Duke Power, Co., Charlotte, N.C.; General Signal Corp., Stamford, Conn.; and Hallmark Cards Inc., Kansas City, Mo.

Copley named 11 major new clients, including Alameda County Employees' Retirement Association, Oakland, Calif.; Centel Corp., Chicago; and Dallas Employees' Retirement Fund. In addition, it reported, but did not list, 28 other tax-exempt funds as clients.

Heitman reported among its new clients in 1986: Pennsylvania State Employees' Retirement System, Harrisburg; Kellogg Co., Battle Creek, Mich.; Southwestern Bell Corp., St. Louis; and Fresno County (Calif.) Employees' Retirement Association.

J.W. O'Connor reported as new clients: U S WEST, Denver; Ford Foundation, New York; Burlington Northern Inc., Seattle; and Oregon Public Employes' Retirement System, Salem.

Aetna Life reported General Motors Corp., New York, as a new client.

JMB's new clients in 1986 included New Castle County Employees' Pension Program, Wilmington, Del.; Southwestern Public Service Co., Amarillo, Texas; Houston Retirement System; and CF Industries Inc., Long Grove, Ill. ■

Most new real estate equity business (net)

Company	$ mils.
Heitman Advisory Corp.,Chicago	900
Copley Real Estate Advisors, Boston	775
Aetna Life & Casualty, Hartford, Conn.	511
TCW Realty Advisors, Los Angeles	317
Richard Ellis, Chicago	301
Jones Lang Wootton Realty, New York	300
JMB Institutional Realty, Chicago	261
J.W. O'Connor & Co., New York	260
Eastdil Realty, New York	243
La Salle Advisors, Chicago	239

RREEF property sold off; tops S&P

By Steve Hemmerick

CHICAGO — Officials of The RREEF Funds have sold all of the properties in what they say was the first closed-end real estate fund, garnering a return in an 11-year holding period that bettered the skyrocketing Standard & Poor's 500 stock index.

Stanislaw Maliszewski, a principal in RREEF's Chicago office, said the properties that were purchased for $27 million in RREEF West I have been sold for about $60 million to provide a 16.79% compound annual return.

For the holding period, 1975 through 1986, the 16.79% return beat RREEF's calculations of the S&P 500 return of 13.84% and the Shearson Lehman Government/Corporate bond index return of 10.4% return, he said.

Adjusted for inflation, the closed-end fund had a return of 10.19%.

RREEF officials said the sale is important because it demonstrates equity real estate can compete with stock returns.

Also, some investors have been worried about the sale of real estate when so many office markets across the United States are overbuilt.

Unlike open-end funds, closed-end funds have a seven- to 10-year holding period, and the West 1 fund is one of the first large closed-end funds to be sold since pension funds began investing in them in the mid-1970s.

Point West Plaza, a two-story office building in Sacramento, Calif., was one of the holdings in the RREEF Fund's first closed-end real estate fund. The portfolio was liquidated recently, providing a 16.79% annual rate of return to investors during its 11-year lifetime.

The holding period could have been extended for a few more years, but investors voted to sell partly because they wanted to see how the appraised values held up. Mr. Maliszewski said the 12 properties in the fund sold for slightly more than appraised value, but he wouldn't say by how much.

Ten of the 12 properties were sold last month, only five weeks after they went on the market, to Santa Fe Pacific Realty Corp., a real estate division of Santa Fe Southern Pacific Corp., Chicago. Santa Fe was one of 12 bidders.

"One of the interesting things about the sale was we wanted to decide whether we should sell the properties individually or as a package. We determined that all of the properties but two, which had their own peculiarities, could be sold as a package," said Mr. Maliszewski.

One was excluded from the package because space was being re-leased, he said. Of the two, one has been sold and the other is in the process of closing.

Basically, the properties in the fund were located in the Western United States and were well located and well leased, he said. That supports the claim by RREEF officials that the best real estate investments for pension funds are existing properties already leased with tenants and bought for all cash.

Other investors have claimed RREEF's returns would suffer because of the way it buys properties.

RREEF officials, however, view the sale as a demonstration of the validity of their investment approach.

Six pension funds had invested in the fund, which had about 40% of its assets in shopping centers, 18% in business parks, 29% in low-rise garden office buildings, 8% in industrial properties and 5% in office buildings. RREEF officials would not disclose the investors' names. ■

Wrap-up

Interest still there

SAN FRANCISCO — Some pension fund executives are optimistic about investing in what others are describing as a disastrous equity real estate market that will only get worse before getting better.

Bob Wysocki, manager of financial operations and investment management for NYNEX Corp., New York, and manager of that company's $10 billion pension plan, said NYNEX officials are selectively looking for real estate investment opportunities in the current market.

Speaking at the winter conference of the Pension Real Estate Association in San Francisco, Mr. Wysocki said "our timing is reasonable" concerning investment in real estate. Real estate certainly is not at the top, though it may not be at the bottom of the cycle, he added.

He said his fund has hired some separate account managers, though he did not name them. *Pensions & Investment Age* has identified them as Aldrich Eastman & Waltch, Boston; Heitman Advisory Corp., Chicago; and John McMahan Associates, San Francisco.

He did not discuss NYNEX's holdings in the Telephone Real Estate Equity Trust, a $4 billion wasting trust set up by American Telephone and Telegraph Co.

Thomas M. McMahon, vice president for finance and administration of the Pacific Maritime Association in San Francisco, voiced some doubt that media descriptions of a worsening real estate market should scare investors out of that market.

He recalled that, in 1975, when New York faced a serious finan-

Continued on page 14

Futures & options

Wells Fargo gets most new business in dynamic hedging

By Trudy Ring

The nation's biggest passive investment firm made a major inroad into the dynamic hedging market in 1986.

Wells Fargo Investment Advisors, San Francisco, was the leading gainer of new business for dynamic hedging, also known as portfolio insurance, through Dec. 1, according to *Pensions & Investment Age*'s Scorecard survey.

Wells Fargo, with more than $55 billion under management, most of that in index funds, gained $7.5 billion in assets to be hedged dynamically.

Dynamic hedging involves the selling of futures against a portfolio to limit the portfolio's loss to a pre-specified level in down markets.

If the market rises again, the futures contracts may have to be bought back.

"What makes for good indexation also makes for good portfolio insurance management," said Frederick L.A. Grauer, president of Wells Fargo, explaining the firm's success in attracting clients.

Index funds must be managed within narrow boundaries to replicate an index precisely, and portfolio insurance also must be managed with precision to produce the degree of protection desired by the client at the lowest possible cost, he said.

"Our ability to manage a hedge within fine tolerances and at low cost is second to none," Mr. Grauer said.

Wells Fargo's new dynamic hedging clients include the $2.4 billion Illinois State Universities' Retirement System, Champaign, which is applying the strategy to all its marketable securities, valued at $2.1 billion.

Wells Fargo uses the dynamic hedging technology developed by Leland O'Brien Rubinstein Associates Inc., Los Angeles, another leading firm in this field. LOR does not appear in the Scorecard because the firm did not respond to *P&I Age*'s questionnaire.

Had Leland O'Brien Rubinstein participated, it would have shown $2.5 billion in new assets directly under management and another $20 billion under management through licensees such as Wells Fargo, said Larry Edwards, president.

Another LOR licensee appearing in the top 10 for portfolio insurance is BEA Associates Inc., New York, with $309 million in new business.

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Most new business portfolio insurance

Company	$ mils.
Wells Fargo Investment, San Francisco	7,505
Bankers Trust—Invest. Mgmt., New York	2,083
Skye Investment Advisors*, Cupertino, Calif.	840
RepublicBank Dallas, Texas	800
Oppenheimer Capital, New York	425
BEA Associates, New York	309
Advanced Investment Mgmt. Inc., Pittsburgh	205
Northern Trust Co., Chicago	120
J.P. Morgan Investment Mgmt., New York	115
Boston Co., Mass.	100
Citicorp Investment Mgmt., New York	100

* Provides portfolio insurance for RepublicBank, Dallas

Methods' use up 40%

Futures, options gain among top 200

By Trudy Ring

Futures and options continued to gain acceptance among the nation's top 200 pension funds in 1986.

According to *Pensions & Investment Age*'s survey of the top 200, 63 were using stock index futures as of Sept. 30, a 40% increase from the 45 a year earlier. Forty-six pension funds used fixed-income futures, up 39% from the the previous year.

Stock options users rose to 62 users from 49, a rise of 26.5%, while 22 used bond options, up from 18 a year earlier, a rise of 22.2%.

Several of the funds use derivative products in dynamic hedging, which became a popular strategy during the year. According to the survey, 18 of the 200 largest pension funds use this strategy *(P&I Age*, Jan. 26), which uses the derivative markets to hold portfolio values to a predetermined level in declining markets.

However, some of the funds using dynamic hedging also implemented other futures and options strategies in 1986.

The $1.9 billion Conoco Inc. pension fund, Wilmington, Del., and the $1.4 billion Bechtel Power Corp. fund, San Francisco, use futures in the three-way asset allocation strategy run by Wells Fargo Investment Advisors, San Francisco.

The strategy allows Wells Fargo to shift assets among a Standard & Poor's 500 stock index fund, long Treasury bonds and cash. The manager may use futures to make the shifts.

"It seemed like every time, they've outperformed those three asset classes," said Lu Jones, Conoco coordinator-pension investments, explaining why the fund went into the strategy. Neither Conoco nor Bechtel divulged the amount invested in three-way asset allocation.

All Conoco's equity and bond managers have permission to use derivatives, Ms. Jones added.

Bechtel recently granted Wells Fargo permission to use futures in an arbitrage program with a stock index fund, said James Rhodes, senior vice president of Sierra Asset Management, San Francisco, Bechtel's investment subsidiary.

The $1.2 billion State of Delaware Retirement Funds, Dover, gave Wells Fargo and Mellon Capital Management Corp., San Francisco, permission to use futures in accounts that allocate assets between stock and bond index funds, said Bruce Kallos, chairman-investment committee. "We're taking advantage of some mispricings," he said.

The nearly $1.2 billion Milwaukee City Employes' Retirement System started an options buy-write program in the second quarter of 1986. Loewi Asset Management, Milwaukee, is running $3 million in this pilot program, said Robert G. Nehls, secretary and executive director of the fund.

"We're closely monitoring it to see what incremental return it will produce and what downside protection it will produce," he said. The fund and its consultant, SEI Funds Evaluation Services, Chicago, will review the results at midyear and decide whether to continue the program.

Some pension executives view futures and options investments not as distinct programs, but as tools to be used by their money managers when necessary. "We just turned a manager loose," said William H.S. Preece Jr., director-corporate finance at the $1.8 billion Dart & Kraft Inc. pension fund, Northbrook, Ill. The survey was taken before the company split into two units.

"Some of our managers sometimes have used them to, basically, hedge our positions," said Sunny Oberoi, director-pension fund management Pacific Gas & Electric Co., San Francisco, which has $3.2 billion in pension assets. "It's very rare that they use them."

While many funds among the top 200 initiated futures or options programs in 1986, a few terminated them. One was the $5.8 billion Shell Oil Co. pension fund, Houston, which ended an options overwriting program *(P&I Age*, July 21). Shell officials declined to detail reasons for ending the program.

The $5 billion Allied-Signal Inc. pension fund, Morristown, N.J., also discontinued an options overwriting program in 1986. "There was little incremental value relative to the overall fund's size," said Edward T. Tokar Jr., vice president-investments. It had been used on a small portion of a stock index fund. ■

James Rhodes, of Sierra Asset Management, left, and William H.S. Preece Jr., of the former Dart & Kraft Inc., are among pension executives allowing money managers to use futures and options.

Notes

Derivative use listed

GREENWICH, Conn. — Use of futures and options by corporate and public pension funds likely will grow in 1987, according to reports by Greenwich Associates.

The most growth is expected to be in dynamic hedging, a specialized futures program also known as portfolio insurance.

Of the more than 1,000 corporate pension funds surveyed by the consulting firm, 11% plan to start using portfolio insurance in 1987; 6% used it in 1986.

Another 6% of the corporate funds will start using other financial futures programs in 1987, the report said. Thirteen percent used these strategies in 1986.

Growth of options use was expected to be slower; 4% of the corporate funds will begin writing options in 1987, the report said, with 11% already doing so in 1986.

Among the 370 public pension funds surveyed by Greenwich, use of portfolio insurance is expected to double. Five percent of the funds surveyed used this strategy in 1986; an additional 5% plan to add it in 1987.

Use of other futures strategies also is expected to double, to 12% from 6%. Use of option writing, already employed by 18% of the funds, is expected to rise by six percentage points.

Higher costs seen

NEW YORK — The actual cost of portfolio insurance in 1986 will prove to be much higher than expected, predicts Louis I. Margolis, managing director of Salomon Brothers Inc., New York.

"The cost of portfolio insurance will be higher in 1986 than everyone expected and people will be disappointed," Mr. Margolis told a conference on quantitative investment management hosted by the Institute for International Research.

He explained the higher costs would result from the different market circumstances. He said that during 1984 and 1985, the cost of portfolio insurance was lower because volatility in the market was increasing and futures contracts were overvalued.

"One of the ways you control your costs of your exposure in the stock market is using stock index futures, which is less costly than actual stocks. The mispricing of futures contracts increases or decreases those costs. In 1984 and 1985 . . . volatility was increasing and contracts were overvalued and people benefited. So peoples' actual experience in 1984 and 1985 probably was better than could reasonably have been expected," he said.

Mr. Margolis warned people who began using portfolio insurance during 1984-'85 will find the cost of pursuing portfolio insurance programs in 1986 will be higher. "The difference in experience is a fairly wide spread," he said.

Another cost issue Mr. Margolis expects more people to become "sensitized" to in 1987 is opportunity cost.

He said money managers used to be mostly concerned about trading costs, especially commis-

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The remaining firms among the top 10 use other technologies for dynamic hedging.

Bankers Trust Co. — Investment Management Group, New York, developed its own computer model and has been in the portfolio insurance business since 1981. "We think there are some subtleties in the model which are really nice," said Kathy Condon, senior vice president.

Because Bankers Trust is not strictly a hedging manager, it often runs some of the hedge clients' assets, rather than just overwriting them. Some of the hedge clients have set up index funds with Bankers Trust, allowing the manager the flexibility to sell stocks rather than futures when futures are undervalued, Ms. Condon said.

Bankers Trust got nearly $2.1 billion in new portfolio insurance business.

Skye Investment Advisors Inc., Cupertino, Calif., developed its own model and uses it to do hedging for another top 10 firm, RepublicBank Dallas, as well as for direct clients and for Massachusetts Mutual Life Insurance Co., Springfield. The $840 million in new portfolio insurance assets listed by Skye include the accounts managed for those companies; RepublicBank's total was $800 million.

"Our model is based on very strong mathematical theorems," said Manit Rye, vice chairman of Skye. He said Skye officials believe their model is more accurate than some others.

Oppenheimer Capital Corp., New York, developed its model based on experience in the options market. "Portfolio insurance is basically an options product," said Eugene Brody, director of options management, noting portfolio insurers use futures to create a synthetic put option on an entire portfolio.

"We've incorporated what we've learned in the trenches into our portfolio insurance program and we're not as academic as some of the others," Mr. Brody said.

Oppenheimer makes smaller adjustments in its hedge ratio than do some other dynamic hedgers and also will sell fewer futures when they are at discounts and buy more when they are at premiums, he said. "We are making a trade-off between imperfect replication and transaction costs," he said.

Oppenheimer listed $425 million in new dynamic hedging business.

Advanced Investment Management Inc., Pittsburgh, uses its own software to hedge accounts that came in, for the most part, because clients thought they would get better service from Advanced than from some of the larger portfolio insurance providers, said J. Thomas Allen, president.

"We tend to be pretty close to our client base," he said. "We'll design (the hedging program) any way they want it." Advanced listed $205 million in new dynamic hedging business.

Rounding out the leading gainers in portfolio insurance business in 1986 are Northern Trust Co., Chicago, eighth with $120 million; J.P. Morgan Investment Management Inc., New York, ninth with $115 million; and The Boston Co., Boston, and Citicorp Investment Management, New York, tied for 10th with $100 million each.

Portfolio insurance managers said the popularity of the strategy is explained easily. "It's such a useful tool to control the volatility of an asset," Skye's Mr. Rye said. ■

Notes

Continued from page 31

sions. Then as people got more sophisticated, they worried about the bid-ask spread and liquidity premiums.

"People always raise the question, why are more and more active managers doing trading in packaged formats in a short period of time? The reason is that people are trying to contain these opportunity costs, the one that got away, by executing packaged trades in a short time frame."

Mr. Margolis also said interest in derivative products is keen.

New fund offered

NEW YORK — Oppenheimer Capital Corp. is getting set to launch a dual-purpose mutual fund that may be the first to include portfolio insurance and options writing overlays in its investment strategy.

The QFV Dual Purpose Fund will be Oppenheimer Capital's third mutual fund.

It is part of an effort to build a family of funds since its parent, Oppenheimer & Co. L.P., went private in a management buy-out last year.

Through its mutual fund subsidiary, QFV Advisors Inc., Oppenheimer already runs the Quest for Value fund, its flagship, and a cash management trust.

"The appeal of the dual-purpose concept is that it offers a means of appealing to specific investor interests through a single investment vehicle," said Joseph La Motta, president of the fund and Oppenheimer.

Oppenheimer, which now uses portfolio insurance on about $1 billion in separate account assets, will launch the portfolio-insured fund at a time when the strategy has gained tremendous popularity among investors.

It is estimated portfolio insurance is used on some $60 billion in assets. About a year ago that figure was estimated at $4 billion.

As investment adviser, Oppenheimer will manage fund assets through the value-oriented approach used for many of its more than $9 billion in tax-exempt and individual accounts.

However, the fund's dual objectives — long-term capital appreciation and preservation of capital as well as current and long-term income growth — will be represented through two types of stock: capital, or common, shares and income or preferred shares.

A public offering of the new closed-end fund was scheduled for late January or early February and includes at least 2 million shares each of capital and income shares. Both classes have been priced at $12.50 a share.

Mr. La Motta said the fund is registered to raise as much as $100 million from institutional and individual investors.

The dual-purpose structure offers investors built-in leverage without incurring the risks of typical leveraging strategies, such as buying on margin.

That's because the capital and income shares initially will each represent 50% of fund assets, while each will receive 100% of the fund's capital appreciation and income respectively.

Thus for every $1 invested, capital shareholders earn capital appreciation on $2 of initial assets, while income shareholders get income earned on $2 of assets.

The leveraging also can magnify the risks of capital depreciation.

According to the preliminary prospectus, the financial leveraging means capital shares of the fund may show greater price volatility than non-leveraged investment funds generally.

Oppenheimer will seek to control these downside risks as well as provide potential for generating additional incremental income through the use of portfolio insurance and options overwriting.

Trading increases

Trading of most financial futures and options instruments increased in 1986, according to leading exchanges.

Activity in Standard & Poor's 100 and 500 stock index options paced the Chicago Board Options Exchange to record volume of 180.3 million contracts, up 21.2% from 1985's 148.8 million total.

Trading in the S&P 100 option amounted to 113.1 million contracts, up 24.6% from 1985's 90.8 million total. The S&P 500 option, revamped last year, had 1.6 million contracts traded, more than a 200-fold increase from 1985, when only 7,762 were traded.

Individual stock options traded on the options exchange had their first volume increase since the introduction of index options in 1983. Volume rose to 64.7 million, up 12.5% from the 57.5 million traded in 1985.

Twelve individual contracts set records on the way to the Chicago Mercantile Exchange's record volume of 68.7 million, up 21.6% from 1985's total of 56.5 million.

Leading the way were S&P 500 stock index futures, whose 19.5 million total volume was a 30% increase from 1985's total of 15 million. Options on S&P 500 futures, four currency futures and four options on currency futures also set records at the Mercantile.

Interest rate futures and options on futures led volume gainers at the Chicago Board of Trade, which had record volume of 100.8 million contracts, up 20.3% from 1985's 83.8 million.

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Equity . . .

Continued from page 3

Mr. Bastin described Paribas as a highly quantitative firm, like several other small and medium-size firms that ranked high in the survey. Firms are considered medium if they have $250 million to $1 billion under management.

The firm that ranked second in the small category, Wedge Capital Management Inc., Charlotte, N.C., has a strategy based about 75% on quantitative analysis and 25% on more subjective judgments derived from that research, said Richard Hodde, executive vice president.

"We take a very conservative, disciplined approach to investing," he said. "We use computer models to evaluate individual stocks and the market as a whole."

Wedge had 16 new clients, including L.L. Bean Inc., Freeport, Maine, and Southwire Co., Carrollton, Ga. It had $90 million in new equity assets.

Moran Asset Management Inc., Greenwich, Conn., would have outranked Wedge for second place if it had provided client names. It had $120 million in new equity business. Evans & Moxon Capital Management Inc., Yardley, Pa., would have tied for fifth in the small firm category had it provided client names. It had $67 million in new equity business.

The firms that ranked second and third in the midsize category both are quantitative, while the one that ranked first is an exception to this general trend.

Ranking second was Renaissance Investment Management Inc., Cincinnati, with $280 million. The firm, now 100% invested in equities, uses quantitative techniques to determine when to make moves among equities, bonds and cash, said Frank Terrizzi, president.

Besides being quantitative, Renaissance also is one of only a few firms that provides asset allocation services, a factor that makes it attractive to pension funds, he said.

Renaissance provided client names on the condition none be published.

Ranked third, with $230 million, was Advanced Investment Management Inc., Pittsburgh, a quantitative manager that looks at such factors as price-earnings ratios, dividend discount models and risk levels, said J. Thomas Allen, president.

Many people have a great feel for subjective stock picking, he said, but clients often are more comfortable with managers applying objective, quantitative methods.

New equity clients listed by Advanced include Joy Manufacturing Co., Pittsburgh, and Hershey Foods Corp., Hershey, Pa.

Standing out from the "quants" was Eagle Asset Management Inc., St. Petersburg, Fla., which ranked first in new equity business among medium-size firms, with $327 million. "We feel investing is as much an art as it is a science," said Lincoln Kinnicutt, senior vice president.

Eagle's president, Herbert Ehlers, is not as famous as some other stock pickers, like John Templeton, founder of the Templeton Funds, St. Petersburg, Fla., or Warren Buffett, chairman of Berkshire Hathaway Inc., Omaha, Neb., but he has been successful at it, Mr. Kinnicutt said.

The Eagle staff makes individual stock selections from companies that are healthy and growing, are in easy-to-understand businesses, have recurring income streams, have strong balance sheets and have strong cash flow, Mr. Kinnicutt said.

The eight new clients listed by Eagle include Carolina Mills, Maiden, N.C.; McKee Baking Co., Collegedale, Tenn.; and the Louisiana Teachers' Retirement System, Baton Rouge. ■

Most new equity business (net)

Top 10 managers over $1 billion

Company	$ mils.
Wells Fargo Invest. Advisors, San Francisco	10,683
State Street Bank, Boston	7,920
Mellon Capital Mgmt., San Francisco	4,000
Alliance Capital Mgmt., New York	2,279
Northern Trust Co., Chicago	1,785
INVESCO Capital Mgmt., Atlanta	1,400
Aetna Life & Casualty, Hartford, Conn.	1,195
Bankers Trust—Invest. Mgmt., New York	1,055
Vanguard Group, Valley Forge, Pa.	975
Dreman & Embry, New York	890

Top 10 managers $250 mil. to $1 bil.

Company	$ mils.
Eagle Asset Mgmt., St. Petersburg, Fla.	327
Renaissance Investment Mgmt., Cincinnati	280
Advanced Investment Mgmt., Pittsburgh	230
Nicholas-Applegate Capital, San Diego	207
Hill Samuel Invest. Advisers, Minneapolis	185
Columbus Circle Investors, New York	140
Alpine Capital Mgmt., Denver	135
Daniel Breen, Houston	116
Brignoli, Curley & Roberts, New York	110
Cutler & Co., Medford, Ore.	100

Top 10 managers under $250 million

Company	$ mils.
Paribas Asset Mgmt., New York	146
Wedge Capital Mgmt., Charlotte, N.C.	90
IDS Growth Spectrum Advisors, Minneapolis	76
Ariel Capital Mgmt., Chicago	67
Dietche & Field Advisers, New York	55
Target Investors, Stamford, Conn.	40
Aronson & Fogler, Philadelphia	35
Kurtz Capital Mgmt., Livingston, N.J.	35
Crabbe-Huson Co., Portland, Ore.	32
Sullivan Morrissey & Mickle, New York	32

Indexing . . .

Continued from page 3

It also had substantial business in an area for which respondents were not ranked — annuity closeouts. Aetna had $4 billion in new business there.

"We have a very broad product line," said T. Jerald Moore, vice president, explaining Aetna's success. Aetna was ranked eighth in Scorecard last year.

Unlike some other large firms that ranked high, Aetna concentrates on active management. An Aetna product that proved popular with clients in 1986 was its discretionary asset management service, which has a large equity component but also allows for moves of money among bonds, cash, real estate and international investments, Mr. Moore said.

Ranked third was another prominent index fund manager, State Street Bank and Trust Co., Boston, with $11.9 billion. State Street reported that $9.4 billion of this was in stock index accounts, including those using futures and foreign stocks. Another $1.25 billion was in bond index funds.

State Street has a large amount in S&P 500 stock index funds, but also uses customized indexes extensively.

Among the top 10 large managers, those with more than $1 billion under management, others with significant index fund business are Mellon Capital Management Corp., San Francisco; Bankers Trust Co. — Investment Management Group and Alliance Capital Management Corp., both of New York; and The Boston Co., Boston. Bankers Trust and Boston Co. have substantial portfolio insurance business, as does another top 10 firm, J.P. Morgan Investment Management Inc., New York.

Among the medium-size firms, $250 million to $1 billion under management, and small ones, less than $250 million under management, the top gainers represented a mixed bag of investment styles.

First in the medium-size category was Hahn Holland & Grossman, Chicago, with $475 million. The firm did not provide figures on how much of that came from equity, fixed-income or balanced accounts. However, most of the firm's accounts are equity only, or balanced with a heavy equity orientation, said Lou Holland, partner.

He described the firm's equity strategy as top-down and risk-averse. Explaining the firm's success, he said, "Our story is relatively simple. We've worked hard and we've told our story."

Ranked second in the midsize category was Axe-Houghton Management Inc., Tarrytown, N.Y., whose $451 million net gain included substantial amounts in index funds. During the year, Axe-Houghton acquired index fund manager Great American Core Investors, also of Tarrytown. The acquisition accounted for $270 million of Axe-Houghton's gain.

Coming in third, with $415 million, was Merganser Capital Management Corp., Cambridge, Mass., an active fixed-income manager.

Paribas Asset Management Inc., New York, led small firms with a net gain of $146 million. Paribas is a highly quantitative equity manager.

PMRealty Advisors Inc., Newport Beach, Calif., came in second with $91 million. As the name implies, it is a real estate manager.

Wedge Capital Management Inc., Charlotte, N.C., an equity manager using quantitative techniques primarily, was third with $90 million.

Two firms would have placed in the top 10 for small managers had they provided client names. Moran Asset Management Inc., Greenwich, Conn., would have been second, with $120 million in new equity business. Evans & Moxon Capital Management Inc., Yardley, Pa., would have been seventh with $67 million in new equity business. ■

Active . . .

Continued from page 4

the National Can Corp., Chicago; General Motors Corp., New York; and Primark Corp., Detroit.

Smith Affiliated Capital placed third among medium-sized firms, gaining $123 million.

"We are aggressive shifters of maturity risk, disciplined by yield curve analysis," said Robert Smith, president, describing the firm's active strategy.

Although the firm is risk averse, it has produced high returns and "that is why we have attracted a good deal of new business," said Dick Dearnley, executive vice president.

Its new fixed-income clients are Medical Inter-Insurance of New Jersey, Lawrenceville; Metromedia Inc., Secaucus, N.J.; Uniroyal Plastics Inc., Stamford, Conn.; and F.W. Woolworth & Co., New York.

An active strategy also works well for Weaver C. Barksdale, as the firm gained $82 million.

Its controlled-risk approach is designed for institutions seeking the added value of active management, without the traditional volatility associated with such techniques, said John McDowell, principal and senior vice president of client relations and marketing.

The strategy's two objectives, high-income yields and consistent returns, have produced a 12.3% annualized return in the past nine years, he said. This compares with the Shearson Lehman Government/Corporate annualized return of 11.3% for the same period.

"We have had only one down quarter in 36 (quarters)," Mr. McDowell said, explaining the firm's ability to attract new customers. He asked the names of his firm's three new fixed-income clients not be published.

Among smaller firms, E.M.G. Advisors outdistanced the pack with $62 million in new business. Maryland National Bank and Mutual Service Life Insurance Co. each gained $15 million, tying for second.

E.M.G. Advisors employs an active fixed/variable methodology. The firm buys discounted fixed-rate mortgage-backed securities, either agency or government guaranteed, and enhances the return with variable-rate government securities.

This strategy has produced a seven-year annualized return of 16.6% with a standard deviated risk of 5.1%, said Eben M. Graves, president. This compares with Shearson's 14.1%.

It lists Amerace Corp., New York, among its six new fixed-income clients. ■

Most new balanced business (net)

Top 10 managers over $1 billion

Company	$ mils.
Wells Fargo Invest. Advisors, San Francisco	1,980
Loomis, Sayles & Co., Boston	645
Boston Co. Inc., Boston	630
J.P. Morgan Investment Mgmt., New York	488
Invesco Capital Mgmt., Atlanta	416
Morgan Stanley Asset Mgmt., New York	301
Mellon Capital Mgmt., San Francisco	300
Manufacturers National Bank, Detroit	287
Bear, Stearns Asset Mgmt., Chicago	252
First Investment Mgmt., Oklahoma City	250

Top 10 managers $250 mil. to $1 bil.

Company	$ mils.
Bank of California, San Francisco	263
Wolf Webb Burk & Campbell, Philadelphia	169
Liberty Nat'l. Bank/Louisville, Ky.	147
NWQ Investment Mgmt., Los Angeles	95
Federated Invest. Counseling, Pittsburgh	89
United States Trust Co., Boston	69
Amivest Capital Mgmt., New York	58
Cramblit & Carney, Los Angeles	55
Sirach/Flynn, Elvins Capital, Seattle	55
Daniel Breen, Houston	46

Top 10 managers under $250 million

Company	$ mils.
Anchor Capital Advisors, Boston	100
P.E. Becker, Portland, Ore.	50
Kirr, Marbach & Co., Columbus, Ind.	33
Pension Portfolio Advisors, Southfield, Mich.	25
Schaenen Wood & Associates, New York	22
Maryland National Bank, Baltimore	20
Seaboard Investment Advisers, Norfolk, Va.	16
Jurika & Voyles, Oakland, Calif.	15
Crabbe-Huson Co., Portland, Ore.	14
Cumberland Advisors, Vineland, N.J.	12

Labor . . .

Continued from page 1

specified damages to the pension fund resulting from the suspended payment and the replacement of management-appointed trustees with trustees appointed by the court.

"We don't want to get lax with our contributions, especially in light of the corporation we are dealing with," said Marty E. Urra, a labor trustee and plaintiff in the case. Mr. Urra is president of Local 702 of the International Association of Machinists and Aerospace Workers, Miami.

The labor trustees' counsel, Gerald M. Feder of Feder & Associates, Washington, declined to comment on the charges made against Eastern and Texas Air. "The complaint speaks for itself," he said.

Theodore M. Forbes, a partner in the law firm of Gambrell & Russell, Atlanta, which is Eastern's general counsel, declined to comment because he is a defendant in the case. The complaint said Mr. Forbes "knowingly aided, abetted and/or participated" in violations of ERISA.

The lawsuit is "premature" because the Internal Revenue Service has yet to act on Eastern's Sept. 15 application for a funding waiver, said William Bell, an attorney for the defendants. "If the application is denied, the money will be put in," said Mr. Bell, who is with Holland & Knight, Miami.

Meanwhile, the pension fund is suffering a loss caused by Eastern's decision to withhold the $16 million contribution, the complaint alleged.

Because of the company's decision, the trustees Sept. 26 unanimously agreed to liquidate $12 million in stocks and bonds assets to cover anticipated benefit payments, the complaint said. The two labor trustees had wanted Eastern to make the whole $16 million payment or, failing that, to make benefit payments as they came due, but they voted for the sale of assets because the company rejected the alternatives, the complaint said.

Eastern's reluctance to make the contribution for 1985 started with the Feb. 24, 1986, plan to merge the company with Texas Air, the complaint said. Under the merger agreement, holders of Eastern's common stock would receive $6.25 a share, of which Texas Air would pay $4.50 and Eastern would pay $1.75 if it could sell debt to finance the payment to the stockholders.

Approval of certain creditors was needed to issue the additional debt, the complaint said. If Eastern could not make the $1.75 a share payment, Texas Air would pay the entire amount.

Eastern determined it would have to repay $110 million of debt to get approval for the new issue, according to the complaint. "Before Aug. 28, 1986, Eastern and Texas Air had evaluated the cash needs of Eastern, which were related, among other things, to the requirements of the merger agreement, and had concluded that Eastern probably would withhold the required $16.007 million contribution to the plan on September 15, 1986," the complaint stated.

The Eastern case raises stubborn questions about fiduciary responsibility that are inherent in the management trustee's dual role as corporate executive and pension plan official. For example, when The LTV Corp., Dallas, initiated an unsuccessful tender offer for Grumman Corp., Bethpage, N.Y., in 1981, management trustees of the Grumman pension plan directed the purchase of additional shares of Grumman stock in an effort to thwart the takeover.

The 2nd U.S. Circuit Court of Appeals in New York found in 1982 the trustees had breached their fiduciary duty by failing to act for the exclusive benefit of the plan beneficiaries.

Proponents of greater rights for pension plan beneficiaries won another battle last year, when the U.S. Supreme Court refused to review a lower court's finding IRS approval of a funding waiver does not override a union contract that obligates funding by the plan sponsor.

Robert C. Long, a lawyer on the losing side of the case — which involved the United Auto Workers and Keystone Consolidated Industries Inc., Dallas, said plan sponsors should consider adopting collective bargaining agreements that explicitly recognize the employer's right to withhold funding if the IRS approves a funding waiver.

"This is another item on the checklist" in preparing contracts, said Mr. Long of Seyfarth, Shaw, Fairweather & Geraldson, Chicago.■

Hancock . . .

Continued from page 2

funds will continue, and he said he believes some pension fund executives are taking assets from open-end funds for present liquidity needs instead of taking assets out of other investments, particularly the stock market.

Those withdrawing could be paid out in unit share values that are substantially lower than only 12 months ago.

Mr. Garner said Hancock officials are aggressively writing down values of properties in the fund to current market values to protect the assets of remaining fund participants and so the fund is not paying out inflated values.

Although the fund has only 35% of its assets in office property, among the hardest hit property type, it does have substantial holdings in Houston, Dallas and Denver, cities suffering from high office vacancy rates.

That need to write down asset values, however, worsens the situation, according to Barbara Cambon, a principal with Institutional Property Consultants, San Diego, Calif. "You don't want to be the last one in the fund in case there is no value left," she said.

Mr. Garner said the fund will not be selling troubled buildings to meet withdrawal requests. He said other properties, including some believed to be at peak value, have been designated for sale. Those sales will account for about $60 million of the payouts expected to be honored this year; the other $40 million will come from income.

Hancock's ERA fund is not the only life insurance open-end real estate fund having redemption problems, said Ms. Cambon.

Prudential Realty Group's Property Investment Separate Account 1, for example, lost 50 investors in 1986 alone. In the past two years, the giant open-end fund has experienced an average outflow per quarter of $150 million to $200 million and an average inflow of $44.5 million.

As of Sept. 30, PRISA had $5.03 billion in total assets (gross) (*P&I Age*, Jan. 12).

"The first thing that I think generated the withdrawal requests is the relative poor performance of the funds" that were hit by withdrawal requests, Ms. Cambon said.

"Because they (the commingled funds) have this stand-in-line system for getting out, I think people who are even concerned about the possibility of getting out feel the necessity to get in line," she said.

In addition to pension executives' concerns about investment performance, Ms. Cambon said there is a structural change in the real estate market.

"I think the market has changed in a lot of ways," she said, adding there still is a place for the broadly diversified open-end funds, including the need of funds that have not previously invested in real estate. ■

Money managers buy . . .

Continued from page 4

Jan. 1 through Dec. 1.

Aetna also provided client names on the condition they not be published.

Rounding out the top 10 were Principal Mutual Life Insurance Co., Des Moines, Iowa, with $695 million; The New England, Boston, $452 million; MONY Financial Services, New York, $434 million; and Pacific Mutual Life Insurance Co., Newport Beach, Calif., $419 million.

Some big names were absent from the list. Equitable Life Assurance Society of the United States, Secaucus, N.J., would have ranked sixth, with $1.05 billion, had it provided client names. Connecticut Mutual Life Insurance Co., Hartford, would have been ninth, with $565 million, had it provided client names.

Also, three of 1985's top 10 did not participate in the survey. They are Metropolitan Life Insurance Co. and New York Life Insurance Co., both of New York, and John Hancock Financial Services, Boston. A year ago, they ranked second, fourth and fifth respectively.

The top GIC managers said defined contribution plans, particularly 401(k) plans, account for much of their business. GICs are especially popular in employee-directed plans. "The employees still give a lot of credence to the guarantee," Provident's Mr. Profio said.

Prudential's Mr. Chmely added, "Except for plans where there's a requirement that company stock be the investment for some portion of the contributions, we think 80% to 85% of the new investments are being made in a GIC product."

Rates on GICs fell during 1986, as did interest rates on other fixed-income investments, but that hasn't hurt GICs' popularity, the managers said. Travelers' Mr. Willison said that already in 1987, his company has written as much GIC business as it did in all of 1986.

"While rates have actually declined, the real rate of return, adjusted for inflation, is still very attractive, relative to other fixed-income investments," he said. "And people still place high value on that guarantee.

"Even though rates have dropped, we have not seen a reduction in our business." ■

Mercantile launches sub

ST. LOUIS — Mercantile Trust is forming a wholly owned subsidiary to focus on the needs of large tax-exempt investors, said Ralph Webster, vice president-trust employee unit.

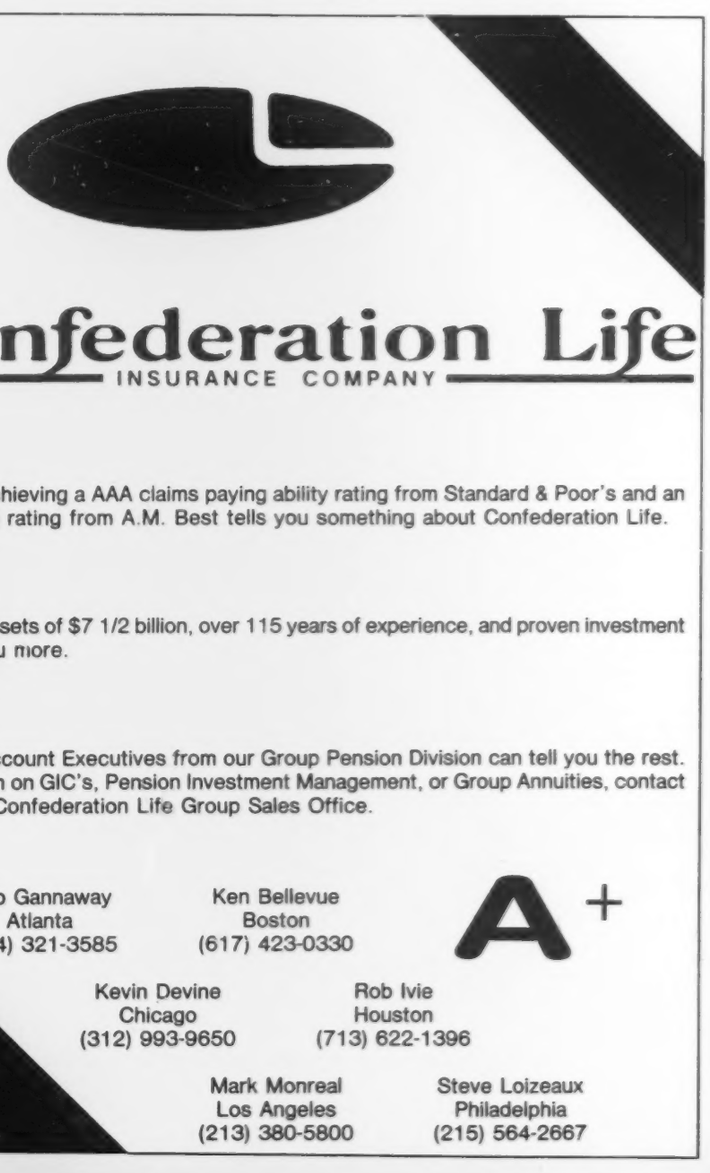
The subsidiary, Mississippi Valley Advisors, will be staffed by 19 investment professionals from the parent company, along with two "experienced portfolio managers" who are joining from other firms. Mr. Webster declined to disclose the managers' names because negotiations are still in progress.

MVA is scheduled to open this month, pending Securities and Exchange Commission clearance. Mr. Webster said MVA would begin with about $2.5 billion under management and about 150 clients.

The move allows the holding company, Mercantile Bancorp, to offer equity, fixed-income and balanced services under MVA, while Mercantile Trust can service the individual, small accounts and master trustee or custodian relationships according to client's needs, he said.

2Mr. Webster said there will be incentive bonuses for managers that should bring long-term benefits to the clients and "attract and keep qualified investment personnel."

John Blixen, the chief investment officer at Mercantile Trust, will become president; Gene Gillespie, head of investment research at the parent company, will transfer his duties to the subsidiary. Mr. Webster will become managing director. ■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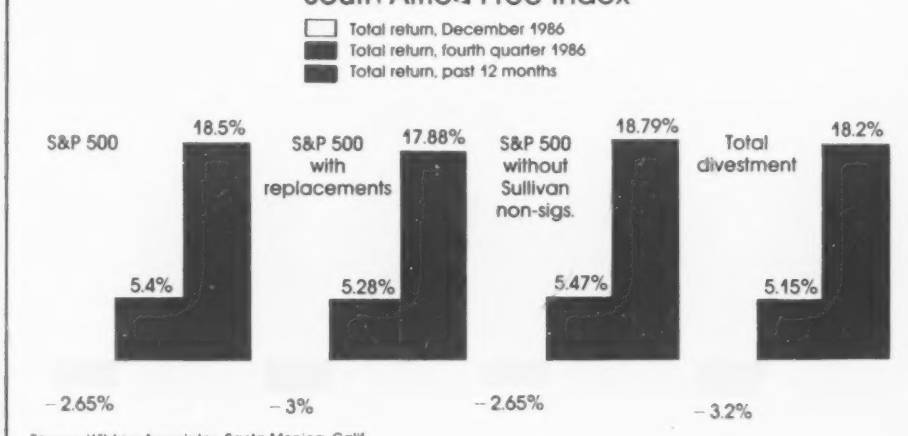
Statistically speaking

The Statistically Speaking page offers an at-a-glance look at statistics for the latest quarter.

The Wilshire South Africa Free Index, Mercer-Meidinger bullet GIC data, First Chicago's MMI and the Russell 3000 returns will appear regularly.

Other data will be used as time and space allow.

South Africa Free Index



Source: Wilshire Associates, Santa Monica, Calif.

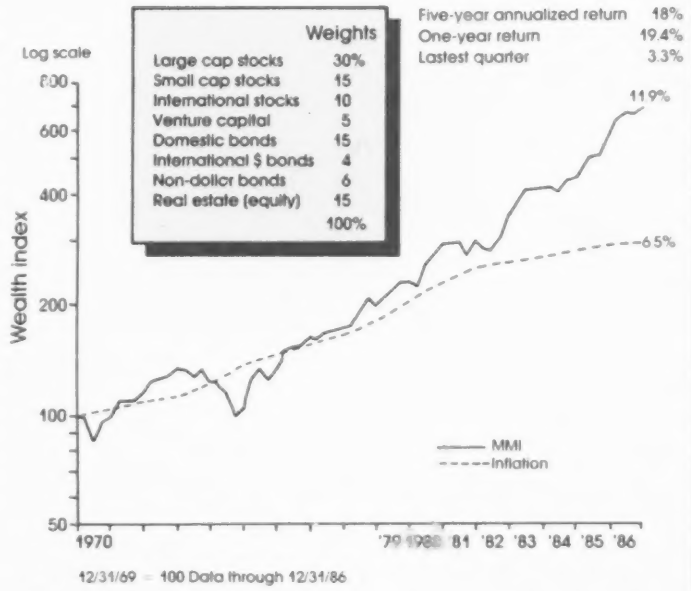
S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories**: excludes 20 companies, no replacements. **Total divestment**: eliminates all companies with South Africa involvement, no replacements.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of nine asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

	Weights
Large cap stocks	30%
Small cap stocks	15
International stocks	10
Venture capital	5
Domestic bonds	15
International $ bonds	4
Non-dollar bonds	6
Real estate (equity)	15
	100%

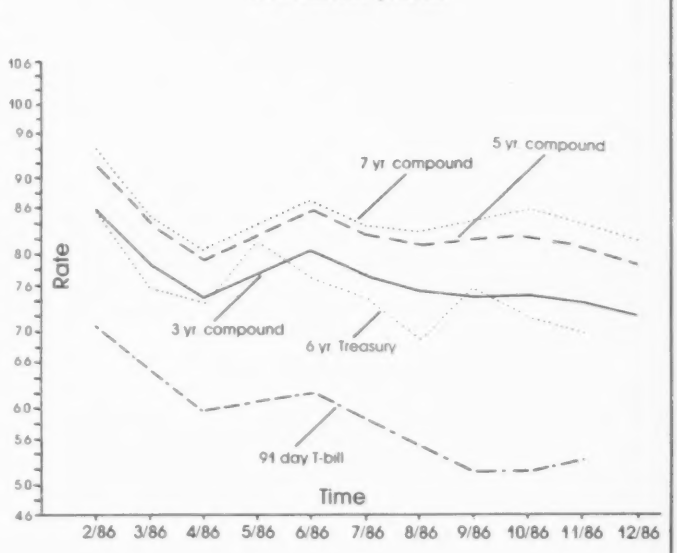
Five-year annualized return	18%
One-year return	19.4%
Lastest quarter	3.3%



12/31/69 = 100 Data through 12/31/86

Source: First Chicago Investment Advisors, Chicago

William M. Mercer-Meidinger Inc. Summary of average bullet GIC data vs. market yields



Source: William M. Mercer-Meidinger Inc., Louisville, Ky.

Fourth quarter 1986 returns

	Russell 3000	Russell 1000	Russell 1000 by market capitalization				Russell 2000
			Large	Medium/large	Medium	Medium/small	
Financial services	– 0.9%	– 0.7%	0.9%	– 0.3%	0.2%	– 3.2%	– 4.1%
Utilities	3.5	3.6	5.8	3.4	– 0.5	2.1	0.6
Technology	0.8	0.4	– 2.4	2.8	2.7	8.5	3.4
Producer durables	4.3	4.6	– 3.7	8.1	– 1.4	7.1	2
Materials & processing	6.4	7.1	7.5	5.4	10.3	4.9	1.6
Integrated oils	5.5	5.5	5.3	10	6.5	– 5.7	11.2
Other engergy	0.8	1.3	—	0.1	1.6	2.7	– 3.2
Consumer staples	9	9.2	10.9	8.5	9.8	2.1	2.3
Consumer discretionary	5.4	6.1	12.1	4.5	5.3	2.2	0.5
Health care	7.9	9.3	12.2	9.6	1.4	– 3.3	– 3.4
Auto and transportation	4.2	4.1	2.3	4.1	7.9	1.2	5.5
Total	4.1	4.4	5.7	4.6	3.7	1.8	0.6

Source: Frank Russell Co., Tacoma, Wash.